

Breaking Down Barriers to Economic Opportunity

Living Cities Highlights 2018-2021

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Executive

Living Cities is a collaborative of 19 of the world's largest foundations and financial institutions working to close racial income and wealth gaps in American cities, so that all people in U.S. cities can be economically secure, build wealth, and live abundant, dignified, and connected lives.

The slave ships and genocidal acts that marked the beginning of racism in America are long gone. But racism remains alive 400 years later. The American Dream of upward mobility — earning a living wage and building wealth in a home or a business that can be passed to the next generation — has been a mirage for many, undercut by policies and practices that intentionally excluded Black and brown people.

30
percentage points

Current white/Black gap in homeownership, larger than when discrimination was legal.

02%

2% of small business employers are Black vs 14% of the population

10x

A white family's typical net worth is 10x greater than that of a Black family

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Summary

We do this in three major ways:

- **We use capital funds** to demonstrate how investors can deploy their investments to break down barriers to capital for Black and brown communities.
- **We support leaders in local government**, helping them adopt racially equitable ways of operating and address the policies and practices that keep Black, indigenous and other people of color from owning a home or starting and growing a business.
- **We provide a collaboration platform for philanthropy and financial institutions** which encourages and supports our members' efforts to learn and work together to achieve sustained equitable economic development.

Over our thirty-year history, we have leveraged these strategies to catalyze others to join us in adopting and amplifying what we have learned. In 2016, we made an organizational commitment to focus squarely on economic gaps that resulted from systemic racism. With this intentional frame on our work, we realized significant impact:

- Our **Blended Catalyst Fund** supported the development of **1,000 units of housing**, the creation of more than **750 full-time jobs**, and resulted in more than **60,000 people** being provided with other social services. Our efforts achieved a **7x rate of leverage** and over half of our investments included co-investors who are testing new ways of investing.
- Within our **Closing the Gaps network**, **65% of city leaders** reported changing policies or practices as a result of their involvement with Living Cities.
- Living Cities' **members are learning and working together** — in philanthropy and the financial sector — **to drive transformative change.**

The pages ahead spotlight stories that encapsulate Living Cities' efforts to break down the barriers that prevent the American Dream from becoming a reality for so many. These include data and compelling stories about how Living Cities created impact in the areas of Capital for the New Majority, Closing the Gaps in U.S. Cities, as well as in Philanthropic and Financial Sector Innovation.

Through our impact investment practice, Living Cities continues to demonstrate how to invest differently to break down barriers to capital for Black, Brown and diverse communities, and galvanize others to join us. Actively learning and sourcing from a group of primarily diverse investors, fund managers and entrepreneurs that we call the Builders & Benefactors Network, our \$37 million Blended Catalyst Fund prioritizes investments that will help close racial wealth gaps. We harness our influence in the field, relationships, and unique risk models to test alternatives to traditional models of risk perception and assessment, and to encourage investors to deploy capital to diverse fund managers and founders.

68,000+

people provided with social services

2,600+

early stage investments or loan

218,000 sq feet

of community and commercial space created

91

part-time jobs created

759

full-time jobs created

\$33.5 million

invested has leveraged \$164 million to date

Blackstar Stability Distressed Fund

Some of the most pernicious housing practices that laid the groundwork for inequality continue to this day; redlining, racialized subprime loan targeting, and predatory land sale contracts, or “Contracts-for-Deed,” (CFDs) continue to prey disproportionately on communities of color. In order to blunt the force of these practices, Living Cities partnered with Blackstar Stability Distressed Debt Fund (“Blackstar”).

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The Blackstar entity was initially designed to keep families in their homes following the 2007-2008 housing market downturn and recession through the restructure of non-performing mortgage loans. The Blackstar team decided to push its work further to focus on CFDs, highly risky and predatory contracts that exponentially raise homeowners' risk of losing their homes.

A CFD, as described by Blackstar Managing Principal John Green, is a “legal agreement for the sale of property in which a buyer takes possession and makes payments directly to the seller, but the seller holds the title until the full payment is made.” These transactions burden would-be buyers with inflated interests rates and prices, without accruing any benefits like equity until fully paying off the house.

Blackstar

Blackstar had a straightforward and powerful idea in order to offset the financial harm that CFDs could inflict on families: Purchasing those CFDs and converting them to traditional mortgages at reasonable interest rates.

Still, even diverse-led companies with noble ideas and talented teams can collide against the barriers of insufficient capital markets access and closed doors, and the Blackstar team was in need of funding in order to scale their work. Leveraging both the ability and desire to think outside of traditional underwriting constructs, and by engaging our network, Living Cities was able to help Blackstar overachieve its initial fundraising goals.

“If the CFD buyer misses a single payment, they can be evicted, losing their home and all the work they put into it,” Green said. “For those buyers who beat the odds and secure title to the home, the economic benefits are a fraction of what they should have been.”

In June 2020, Blackstar secured a \$3 million commitment from the Blended Catalyst Fund, and Living Cities’ investment team supported them to raise an additional \$21 million in capital during 2021.

To date, Blackstar has been able to help hundreds of families in the communities they targeted for support: low-income, moderate-income, including many families in BIPOC communities, some of which were among the hardest hit during the Great Recession.

With this investment from Living Cities’ Blended Catalyst Fund and Living Cities’ ongoing support, Blackstar has bigger plans, including continuing to grow the capital base of the fund to serve thousands of families and communities.

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Distressed Fund

Founders First Capital Partners



Kim Folsom

Introduced to Living Cities via the Builders and Benefactors network, Kim Folsom founded and leads Founders First Community Development Capital Partners (“Founders First”) with the goal of providing tailored investment and support solutions for businesses led by women, people of color, LGBTQ+, military veterans, and businesses in low to moderate income areas by providing revenue-based funding and acceleration services. A seasoned executive and entrepreneur herself, Folsom understood the needs and barriers that many other diverse business entrepreneurs experience.

Founders First Capital Partners

Founders First estimates there are 10MM revenue-generating, under-funded, service-based small businesses, based on data from American Express. Additionally, access to capital is not evenly distributed, as entrepreneurs of color face a legacy of structural racism when seeking startup and expansion capital for their small businesses and are less likely to have a network of high-net-worth individuals that they can leverage. To that end, the investment team at Living Cities has long been interested in revenue-based financing (“RBF”), which has emerged as a promising alternative to venture capital and bank loans. RBF provides flexible, non-dilutive growth capital in the form of three to five-year RBF notes, with a 1.5x to 2x cap payback of principal and 5% royalties until the cap is achieved.

Founders First has closed a commitment from Community Investment Management (CIM), a San Francisco, CA-based impact investment asset manager, for a \$100 million credit facility to scale its lending activities. As a result, Founders First needed operating capital, and with the help of Living Cities initial investment commitment, raised a Series A equity round, co-led by Living Cities member organizations, The Rockefeller Foundation and Surdna Foundation, to acquire the growth capital needed in order to fully deploy the CIM credit facility.

In February 2021, it announced an initial close for a \$9 million Series A (reaching \$11 million in an oversubscribed second close) equity financing. Of the more than 400 companies that have gone through the Founders First programs, the company says, 83% reported increased revenues in 12 months and 53% reported increased revenues by 25% in 6 months.



Launched in 2020, the Closing the Gaps (CTG) Network connects city leaders who are committed to making city government more racially equitable and transforming interlocking systems — from homeownership to business starts to procurement — to closing racial gaps in income and wealth in their communities.

Building off the lessons from our Racial Equity Here (REH) initiative, the first year of the CTG Network focused on developing foundational racial equity competencies and supporting individuals doing the heavy lifting of leading racial equity work in the context of the Covid-19 pandemic and the national uprisings for racial justice. A cohort of teams from six cities engaged in a “Year of Reckoning” and 15 cities are part of the broader network.

These city leaders not only supported each other in taking racially equitable approaches to their communities’ Covid-19 response, they are engaging colleagues locally to begin addressing policies and practices that keep Black, Indigenous and other people of color from owning a home or starting and growing a business. Many of the cities in the network were members of our REH cohort or the City Accelerator cohorts, an initiative led by Living Cities and solely supported by the Citi Foundation to advance innovation in local government. The CTG Network integrates and builds off of the work done to date in these places.

To support these cities, in September 2021 we published the racial equity curriculum developed for the Network with partners such as the People’s Institute for Survival and Beyond (PISAB) and Third Space Action Lab. Since its launch, we’ve had 3,724 views which is 2x more than our average resource guide.



At first, I believed that anti-racist organizing was only done outside of work, but looking at the tools that were provided within CTG, it helped me realize that there are actions we could take within our work utilizing specific tools.





83%

The majority (**83%**) of respondents — and **100%** of those who had previously participated in Undoing Racism® — expressed that their participation in CTG has **increased their capacity** for applying a racial equity and inclusion lens to their role, department, and city.

65%

About **65%** of respondents report **that they've seen a policy, practice and/or process change as a result** of their participation in CTG.

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87%

After attending Undoing Racism® workshops, **87%** of survey respondents said they see themselves **as anti-racist organizers**.

64%

Folks who had not participated in an Undoing Racism® workshop prior to joining CTG (**64%** of respondents) **were less likely to see themselves as anti-racist organizers**.

100%

100% of respondents report that they **are willing to take risks and challenge the status quo** in their role to push for racial equity in their department.

Statistics



Austin

Living Cities' multi-pronged partnership with the city of Austin, Texas reflects the breadth of Living Cities' support to cities committed to removing systemic racial barriers so that all Americans can thrive where they live.

Austin first formed a deep engagement with Living Cities through its REH initiative. Austin used an inside-outside strategy to promote racial equity and inclusion, meaning that they harnessed the community's energy in order to catalyze change. At the community's behest, Austin formed an equity office. Once the position was created, the Chief Equity Officer collaborated with 150 community members to create a racial equity tool. The tool has been applied by 12 departments, which represented more than half of the city's departments, to date. One notable use for the tool: Austin's Office of Equity successfully encouraged the Austin Police Department to work with a panel of residents to complete the racial equity assessment tool.

Community stakeholders continue to challenge the city to expand its equity work. Their efforts and support enabled the Chief Equity Officer to extend the use of the racial equity tool to land use assessment issues.

Austin also shared insights about driving change at the city level by partnering with Living Cities and contributing to the creation of a communications guide for cities. The guide serves as a toolkit for informal and formal communications about the racial equity efforts of various communities. It includes 15 years of promising practices that Austin and other cities learned in partnership with our team. In total, Living Cities supported more than 150 communities to advance racial equity and improve economic outcomes for all.

Austin's progress and contributions on various aspects of expanding equity comes as the city has benefited from robust participation in Living Cities initiatives. A member of the Closing the Gaps Network and the Year of Reckoning, Austin staff have taken part in our Undoing Racism and monthly cohort meetings. They have deepened their analysis and practice of anti-racist organizing principles—strengthening the city's approach to undoing barriers to families' wellbeing and financial success over the years.



Memphis

Municipal procurement can and should be an equitable source of revenue for local businesses and vendors to thrive. But systemic barriers mean disparities in who benefits from procurement.

The City of Memphis, Tennessee sought help from the City Accelerator program in order to combat some of its inequities in procurement. The city's population is 63 percent Black, but too few of its government contracts were going to businesses led by people of color. Procurement—specifically, the process by which the government purchases the goods and services it needs from businesses and vendors—can be an important source of revenue for a community's businesses. City leaders invested in undoing disparities understand that this gap can be exceedingly harmful.

Memphis Mayor Jim Strickland stated in his application to Living Cities' City Accelerator program that his city needed support making their practices more equitable and inclusive, and that they could use support aligning and streamlining practices with the county government, for example.

Memphis joined four other cities for the first City Accelerator focused on procurement. In two years, Memphis increased the total dollar amount spent on minority- and women-owned business enterprises (MWBES) by 20 percent. They've also reviewed internal policies and practices to identify and reduce barriers for MBEs. Additionally, Memphis “developed a prompt pay pilot program designed to increase working capital for small, diverse businesses and conducted supportive service seminars on methods by which certified City vendors may improve their back-office process to build a case for increased bonding capacity.” In addition, the City of Memphis also addressed barriers created through inter-agency silos. It also strengthened the ecosystem for business owners of color through a sub-to-prime program, workshops and symposia on business finances and the hidden rules of business, and the Propel diverse business accelerator.

A woman with braided hair, wearing a dark top and a necklace, is speaking at a podium. Behind her is a presentation board with text including "Minority & Women", "Fiscal Year 20", "Fiscal Year 20", "MWBE Dir", and "364 to an a".

Memphis

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When I first started in this role, everyone around me was screaming: the city of Memphis is 63% African American and your numbers should match the demographics!

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Another benefit for Mayor Strickland’s staff was taking advantage of the network and perspective the Living Cities team is able to offer by creating conversations. Joann Massey, the former head of the City of Memphis Office of Business Diversity and Compliance, was able to set realistic expectations in light of the daunting disparities in procurement. “When I first started in this role, everyone around me was screaming: the city of Memphis is 63% African American and your numbers should match the demographics!” She sought support from the Living Cities network, and obtained procurement data from the City of Chicago, which offered context and a point of comparison for Memphis.

“That expectation reset was monumental,” Massey said. “It allowed the progress we were making to be absorbed by the community and elected officials. We garnered support because they said ‘you know what, [our progress is] actually good because we’re almost where Chicago is. That support allowed us the breathing room to be innovative because we weren’t being pressured by expectations that were unreasonable to accomplish. Operating in that obtainable space allows us to stretch ourselves enough without breaking.”

Because of this cohort’s success, Living Cities decided to convene another cohort of 10 cities so that they could all learn from the first set’s achievements. Memphis continues its work with Living Cities as a member of the Closing the Gaps network and the Year of Reckoning, where they are building off their successes in procurement to apply lessons learned on reversing racist policies and practices to create or preserve affordable housing units.

¹City of Memphis application to City Accelerator, 2017

²Living Cities, Citi Foundation, City Accelerator: *Purchase Power*.

³Living Cities: Improving Procurement Processes to Promote Economic Equity

<https://livingcities.org/resources/improving-procurement-processes-to-promote-economic-equity/>

Philanthropic &

Living Cities members are working together to drive change in their respective fields. We have worked alongside our Board to understand the effects of racial inequity as it relates to our work and how we can best leverage our collective power to eliminate gaps. As a result, we are becoming increasingly aligned and focused toward our shared result.

In early 2020, we announced a historic recommitment by the organization's 18 prior members, and welcomed a new institution to the Living Cities collaborative. Representing the world's largest foundations and financial institutions, these members decided to work together for another three

years, marking the tenth time they have done so, this time with an explicit focus on closing racial income and wealth gaps, and breaking down barriers to success for people of color.

Over the past three years, Living Cities brought members and partners together to shift corporate narratives around race and supported member institutions to gather disaggregated data about grants and investments, procurement, institutional leadership, policy and practice to drive internal shifts. These collaborative efforts helped prepare corporate and philanthropic leaders — at the Living Cities table and beyond — to lead on racial equity issues in advance of the national reckoning with race in 2020.

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Financial Sector Innovation

This shared commitment and joint work has influenced many institutional changes among members, including:

Citi launched a bold initiative to close racial wealth gaps and become an anti-racist institution.

Surdna is increasing its grantmaking for racial justice by approximately **\$36 million** over the next three years and shifting to more trust-based philanthropy practices.

The Robert Wood Johnson Foundation developed racial equity practices influenced by Living Cities: racial equity and inclusion training, affinity groups, mentorship programs, and shared leadership model.

Morgan Stanley added diversity, equity and inclusion (DEI) as a core value.

Prudential has made nine public commitments to racial equity, including commitments around Black and Latino talent development within the company.

⁴ Living Cities, Centering Equity, Transforming Systems: A Profile on Joann Massey <https://livingcities.org/blog/1429-centering-equity-transforming-systems-a-profile-on-ashleigh-gardere/>



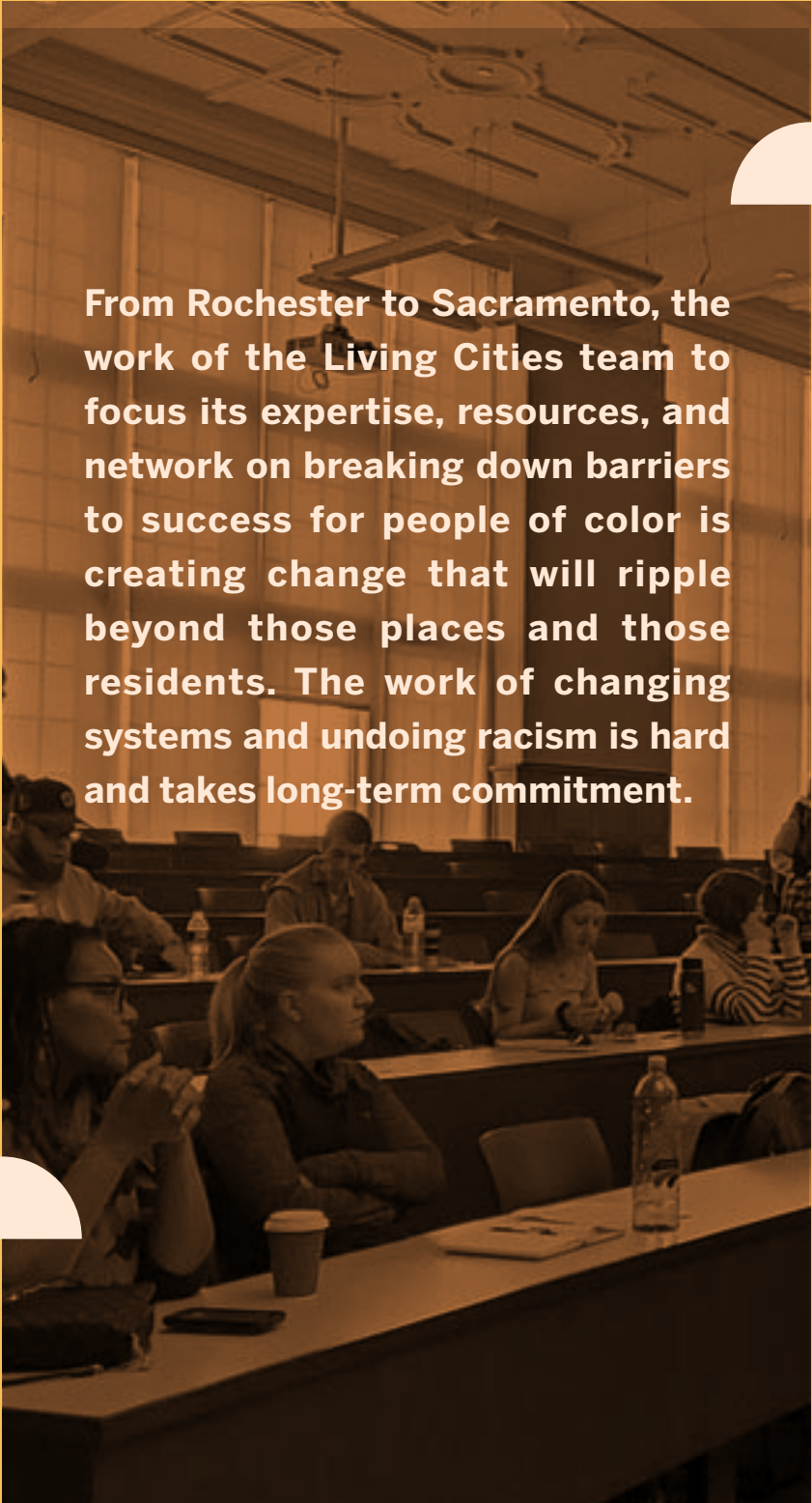
As a long-term member institution, Citi Foundation has been on a journey with Living Cities, as we have undergone a transformation to center racial equity.

Citi Foundation is a key member of the Shared Measures Task Force, which works to understand what it takes to measure racial equity progress in institutions. The task force developed a shared measurement framework—a set of qualitative and quantitative metrics that could help institutions hold themselves accountable for operationalizing racial equity. Their proposed framework was well received by the board, with multiple members asking that the group finalize and adopt these measures. Task force members reported that the process has been transformative. Through the task force, members are building deep relationships, grappling with deep questions about accountability, and asking how these indicators actually translate into institutional change.

Living Cities' current board chair, Brandee McHale, of the Citi Foundation, said that as a collaborative, Living Cities is shaping “our thinking and our understanding of the many roles our institutions can play beyond simply funding programs—so that our response might actually be commensurate with the challenges we face.” She has engaged deeply with various competency building opportunities, as well as tools and practices for exploring new ways of working together that center humanity and anti-racist principles.

Conclusion

Living Cities will continue to build on these lessons and successes to ensure all people in U.S. cities are economically secure, building wealth, and living abundant, dignified and connected lives.



From Rochester to Sacramento, the work of the Living Cities team to focus its expertise, resources, and network on breaking down barriers to success for people of color is creating change that will ripple beyond those places and those residents. The work of changing systems and undoing racism is hard and takes long-term commitment.

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**Living Cities is
a collaborative,
working to close
racial income and
wealth gaps in
American cities.**

CTG Partners Meeting



City Accelerator Chicago

 B&B Convening